

Schedule of Audit Findings and Responses

State of Washington Washington State Recreation and Conservation Office

- 1. The Recreation and Conservation Office pays grantees without ensuring all services as stated in the grant agreements are received.**

Background

The Legislature established the Recreation and Conservation Office in 1964 to help finance recreation and conservation projects throughout the state that are financed mostly through federal grants.

The Office of Financial Management sets grant management standards in the *State Administrative and Accounting Manual*. The Agency also has its own reimbursement and grant manual to provide further instruction to grantees and Agency staff.

The Agency spent \$193 million and \$180 million in grant money in the 2005-2007 and 2007-2009 biennia, respectively.

Description of Condition

We reviewed 12 projects funded by three grants worth approximately \$7.7 million to determine if documentation to support reimbursement requests was on file; if all reimbursed costs were related to the programs' objectives; and if costs were approved by Agency staff. We selected the projects that represented the highest risk and dollar amounts. We found the Agency:

- Does not require grant recipients to include supporting documentation such as receipts, invoices or timesheets with reimbursement requests. The Agency reviews only the descriptions provided by grant recipients.
- Does not ensure that all deliverables have been received prior to releasing payment.
- Does not receive sufficient detail to allow it to determine whether the agreed-on deliverables were provided and cost estimates were met.

The Agency's reimbursement manual states grant recipients should not submit supporting documentation unless asked to do so. It also states grantees are required to retain supporting records for six years after a project closes. We found the Agency does not perform any on-site reviews of grant recipients' financial records.

Cause of Condition

Agency management stated the documentation it receives is sufficient. In addition, Agency management did not allocate adequate resources to review grant recipients' financial records.

Effect of Condition

The Agency cannot ensure grant funds are being used for their intended purposes or that the state is receiving everything it paid for. Our review of the 12 projects found concerns related to a park improvement project. We noted the following discrepancies between what was agreed to and what was provided.

Items	Grant Agreement	Final Inspection
Benches	37	4
Grills	3	10
Tables	16	15
Kiosk signs	1	0
Trail signs	1	0

The grant agreement stated the grant recipient would provide park amenities. The grant recipient submitted documentation that stated “construction projects” were completed, but did not specify what they were. When the Agency inspected the project, it noted that not all items were provided. The Agency did not follow up and retainage funds were released to the grant recipient.

Recommendation

We recommend the Agency require supporting documentation such as receipts, invoices or timesheets and review this documentation before reimbursing grant recipients. The Agency should monitor to ensure costs submitted for reimbursement were incurred.

We further recommend the Agency promptly resolve any discrepancies noted, take action as needed to ensure grant agreements are fulfilled and seek recovery of the grant funds as appropriate.

Agency's Response

Office's Response to Accountability Audit Finding FY 2007, 2008, 2009

The Recreation and Conservation Office (RCO) appreciates the review of our agency processes and files. RCO staff takes the stewardship of any funds received seriously. Review of RCO accounting practices by the SAO is one way the agency ensures grant funds are being managed appropriately and correctly.

While we believed the documentation received from project sponsors was sufficient evidence for reimbursement, RCO is updating our grant reimbursement process. Changes will include: 1) improving on-site financial monitoring, based on a risk assessment; 2) submission of complete documentation such as receipts, invoices or timesheets; 3) developing an electronic billing system; and 4) moving toward performance-based contracting.

We need to work together to find new ways to maintain our financial stewardship obligations while continuing our efforts to implement the state's goals on sustainability. Requiring sub-recipients to copy and mail thousands of individual receipts, invoices and timesheet is time consuming and is not consistent with the state's commitment to

sustainability. In the long term, financial monitoring will continue to be integral to our agency, and will change as we develop new tools.

Auditor's Concluding Remarks

We appreciate the steps the Agency is taking to resolve this issue and the assistance provided to us during the audit process. We will review the status of the Agency's corrective action during our next audit.

Applicable Laws and Regulations

State Administrative and Accounting Manual

Chapter 20.15.40.e states in part:

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses *before* they **materially** affect the achievement of the agency's objectives.

An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

Chapter 16.20.30.b states, in part:

Financial Reporting. Financial reporting provisions may require a contractor to report on or allow access to their financial information at defined intervals during the contract or upon contract completion or termination. The purpose of financial reporting provisions is to aid in monitoring contractor performance and/or verify fiscal accountability, and to allow contract managers to make informed decisions about the contractor's ability to perform or meet contract requirements.

Chapter 16.20.30.d states in part:

Authorize monitoring of financial records Payment Documentation. The contract should define the documentation required to authorize payment

and to assist the contractor in invoicing correctly so that the contract manager can expedite approval of the invoice for payment.

At a minimum, invoices submitted should include the contract number or other evidence of authorization to contract, date(s) services were provided, description of services provided or any goods received, and approval for payment.

Chapter 16.20.55.c states in part:

Monitoring the Contract. Monitoring means any planned, ongoing or periodic activity that measures and ensures contractor compliance with the terms and conditions of the contract. The level of monitoring should be based on a risk assessment of the services provided and the contractor's ability to deliver those services. Every communication with a contractor is an opportunity to monitor activity

The purpose of monitoring is to ensure the contractor is:

- Complying with the terms and conditions of the contract and applicable laws and regulations;
- Adhering to the project schedule and making appropriate progress toward the expected results and outcomes;
- Providing the quality of services expected;

Effective contract monitoring can assist in identifying and reducing fiscal or program risks early in the process, thus protecting public funds.

Monitoring activities may include, but are not limited to, the following:

- Periodic contractor reporting. Contractors submit progress reports or other appropriate data or deliverables to report on services being provided, adherence to the contract, and degree of progress being made. Substandard performance can also be determined.
- On-site reviews and observations. Contract managers may conduct on-site reviews, interview contractor staff to ascertain their understanding of program goals, interview clients about services received, review key systems and service documentation, review client case records, review personnel records to ensure staff have appropriate credentials, review fiscal records, and observe operations whenever possible. The results of these reviews should be documented in writing and compared with contract requirements.
- Invoice reviews. Contract managers compare billings/invoices with contract terms to ensure the costs being charged are accurate, consistent with the contract requirements, and within the compensation limits set by the contract. Verifying that funds are tracked by fund source will help prevent over-payments by fund.

Documentation of monitoring activities must be maintained by the agency to verify that monitoring has been conducted. Contract files should include, for example, copies of letters and e-mail, meeting notes, and record of key phone conversations as evidence that conscientious monitoring has occurred during the contract. This is especially important where there are issues with the contractor's performance.

Chapter 16.20.60.a states in part:

Principle Terms Amended. The principle areas of contract changes that require amendments are:

- Scope of work. This may include adding, modifying or deleting tasks, services or deliverables, or revising specifications. Changes must be within the scope of the original contract.
- Cost. If the total amount of the contract is increased, a contract amendment is required. If the contract amount is decreased, it is advisable to execute an amendment to clarify the scope of work and dollar amount being decreased

Chapter 16.20.85.a states in part:

When the contract is almost complete, contract managers are responsible to:

- Assess whether all services have been provided and contract objectives and outcomes met;
- Determine the agency's next steps based on the contractor's work;

Ensure all invoices are received and authorize final payment, when appropriate, to the contractor.